

KALAMO TOWNSHIP

23-1100

Financial Statements
As of June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Kalamo Township	County Eaton
Audit Date 6/30/04	Opinion Date 10/21/04	Date Accountant Report Submitted to State: 1/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Walker, Fluke & Sheldon, PLC			
Street Address 525 W Apple St	City Hastings	State MI	ZIP 49058
Accountant Signature <i>Katherine R. Sheldon, CPA</i>		Date 1/6/04	

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INDEPENDENT AUDITORS' REPORT

To the Township Board
Kalama Township
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Kalama Township, Eaton County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kalama Township, Eaton County, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Kalama Township, Eaton County, Michigan, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes, the Township adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Kalama Township's basic financial statements. The accompanying additional supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of Kalama Township, Eaton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan
October 21, 2004

Walker, Fluke & Sheldon, PLC

KALAMO TOWNSHIP
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

	<u>Primary Government</u>	
	Governmental	
ASSETS	Activities	Total
Cash and Cash Equivalents	\$ 159,488	\$ 159,488
Investments	342,970	342,970
Due From State	40,527	40,527
Due From Other Funds	1	1
Capital Assets-Net	<u>75,170</u>	<u>75,170</u>
Total Assets	<u>618,156</u>	<u>618,156</u>
LIABILITIES		
Liabilities		
Accounts Payable	29,223	29,223
Accrued Liabilities	<u>5,353</u>	<u>5,353</u>
Total Liabilities	<u>34,576</u>	<u>34,576</u>
NET ASSETS		
Net Assets		
Invested in Capital Assets, Net of Related Debt	75,170	75,170
Restricted	-	-
Unrestricted	<u>508,410</u>	<u>508,410</u>
Total Net Assets	<u>\$ 583,580</u>	<u>\$ 583,580</u>

The Notes to Financial Statements are an integral part of this statement.

KALAMO TOWNSHIP
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
June 30, 2004

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets	
			Primary Government	Total
Primary Government				
Governmental Activities				
Legislative	\$ 7,741	\$ -	\$ (7,741)	\$ (7,741)
General Government	76,732	6,387	(70,345)	(70,345)
Public Safety	22,721	3,830	(18,891)	(18,891)
Public Works	63,214	-	(63,214)	(63,214)
Health and Welfare	7,901	-	(7,901)	(7,901)
Other	16,292	-	(16,292)	(16,292)
Total Governmental Activities	<u>194,601</u>	<u>10,217</u>	<u>(184,384)</u>	<u>(184,384)</u>
Total Primary Government	<u>\$ 194,601</u>	<u>\$ 10,217</u>	<u>(184,384)</u>	<u>(184,384)</u>
 General Revenues				
Taxes				
Property			29,850	29,850
Administrative Fees			9,375	9,375
State Grants				
State Shared Revenue			120,951	120,951
Other			2,542	2,542
Licenses and Permits			119	119
Investment Income			9,788	9,788
Other			<u>3,820</u>	<u>3,820</u>
Total General Revenues and Transfers			<u>176,445</u>	<u>176,445</u>
Change in Net Assets			(7,939)	(7,939)
Net Assets-Beginning			<u>591,519</u>	<u>591,519</u>
Net Assets-Ending			<u>\$ 583,580</u>	<u>\$ 583,580</u>

The Notes to Financial Statements are an integral part of this statement.

KALAMO TOWNSHIP
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2004

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 159,488	\$ 159,488
Investments	342,970	342,970
Due From State	40,527	40,527
Due From Other Funds	<u>1</u>	<u>1</u>
Total Assets	<u>\$ 542,986</u>	<u>542,986</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 29,223	29,223
Accrued Liabilities	<u>5,353</u>	<u>5,353</u>
Total Liabilities	<u>34,576</u>	<u>34,576</u>
Fund Balances		
Unreserved-Undesignated	508,410	508,410
Designated	<u>-</u>	<u>-</u>
Total Fund Balances	<u>508,410</u>	508,410
Total Liabilities and Fund Balance	<u>\$ 542,986</u>	

**Reconciliation of the Governmental Fund's Balance Sheet to the
Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the governmental funds

Governmental Capital Assets	\$ 151,790	
Less: Accumulated Depreciation	<u>76,620</u>	<u>75,170</u>
Net Assets of Governmental Activities		<u>\$ 583,580</u>

The Notes to Financial Statements are an integral part of this statement.

KALAMO TOWNSHIP
GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2004

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Taxes and Penalties	\$ 39,225	\$ 39,225
State Grants	123,493	123,493
Charges for Services	9,021	9,021
Licenses and Permits	119	119
Interest and Rents	10,984	10,984
Other Revenue	<u>3,820</u>	<u>3,820</u>
Total Revenues	<u>186,662</u>	<u>186,662</u>
Expenditures		
Current		
Legislative	7,741	7,741
General Government	69,952	69,952
Public Safety	22,721	22,721
Public Works	63,214	63,214
Health and Welfare	7,901	7,901
Other	16,292	16,292
Capital Outlay	<u>3,622</u>	<u>3,622</u>
Total Expenditures	<u>191,443</u>	<u>191,443</u>
Excess of Revenues Over (Under) Expenditures	(4,781)	(4,781)
Fund Balance-July 1, 2003	<u>513,191</u>	
Fund Balance-June 30, 2004	<u>\$ 508,410</u>	

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	\$ 3,622	
Less: Current year depreciation	<u>6,780</u>	<u>(3,158)</u>
Change in Net Assets of Governmental Funds		<u>\$ (7,939)</u>

The Notes to Financial Statements are an integral part of this statement.

KALAMO TOWNSHIP
FIDUCIARY FUNDS - STATEMENT OF NET ASSETS
June 30, 2004

	<u>Trust and Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ <u>1</u>
Total Assets	\$ <u>1</u>
<u>LIABILITIES</u>	
Liabilities	
Due to Other Funds	\$ <u>1</u>
Total Liabilities	\$ <u>1</u>

The Notes to Financial Statements are an integral part of this statement.

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kalamo Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Kalamo Township:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities

Kalamo Township has elected not to include the MD&A, but other changes are reflected in the accompanying financial statements (including notes to the financial statements).

REPORTING ENTITY

Kalamo Township is situated in Eaton County south of the Village of Vermontville and north of the Village of Bellevue. The Township operates under an elected board of five members and provides services to residents in many areas including fire protection, ambulance and general government services. Education services are provided to citizens through several local school districts, which are separate governmental entities. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Township, there are no component units to be included in these financial statements.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Amounts reported as program revenue include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables - Receivables consist of amounts due from governmental units for State shared revenues, and accounts receivables related to charges for services. In addition, outstanding balances between funds are reported as "due to/from other funds."

Receivables-Taxes - The Township's property taxes are levied and become a lien on each December 1 based on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 28. After that date, they are added to the county delinquent tax rolls.

The 2003 State taxable valuation of the Township totaled \$34,261,800 on which ad valorem taxes levied consisted of .8718 mills for Township operating purposes raising \$29,850 for operating purposes. Property Taxes collected prior to June 30 are recognized in the General Fund financial statements as current property taxes.

The delinquent real property taxes of the Township are purchased by Eaton County. The County has sold tax notes, the proceeds of which were used to pay the Township for these property taxes.

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)

Capital Assets - The Township defines Capital Assets as assets with an initial cost of more than \$250 for furniture, and all other equipment and \$1,500 for buildings and all other improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

Buildings	40 years
Land Improvements	20 years
Furniture	10 years
Equipment	7 years
Data Processing Equipment	5 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BUDGETS, BUDGETARY ACCOUNTING AND BUDGET BASIS OF ACCOUNTING

Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Township Board prepares the annual budgets prior to June 30. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level. The budget figures used are not the original amounts adopted at the beginning of the year. The budget has been amended by the Township Board at regularly scheduled meetings in accordance with the requirements of P.A. 621 of 1978.

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by Kalamo Township.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the Township incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>TOTAL APPROPRIATIONS</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>BUDGET VARIANCE</u>
General			
General Government:			
Assesor	\$ 10,000	\$ 15,647	\$ 5,647
Public Safety:			
Fire Protection	\$ 22,000	\$ 22,721	\$ 721
Public Works:			
Highways	\$ 27,435	\$ 38,456	\$ 11,021
Dust Control	\$ 20,000	\$ 20,946	\$ 946

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks and two federal savings banks for the deposit of Kalamo Township funds.

The Township's deposits and investments are in accordance with statutory authority.

The financial statement caption cash and cash equivalents includes \$100 of petty cash.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>FIDUCIARY FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents	\$ 159,388	\$ 1	\$ 159,389
Investments	<u>342,970</u>	<u>-</u>	<u>342,970</u>
Total	<u>\$ 502,358</u>	<u>\$ 1</u>	<u>\$ 502,359</u>

**KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

BALANCE SHEET-CASH AND INVESTMENTS (Continued)

As of June 30, 2004, the carrying amounts and bank balances are as follows:

<u>DEPOSIT</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 373,288	\$ 373,288
Uninsured	<u>129,071</u>	<u>129,292</u>
Total Deposits	\$ <u>502,359</u>	\$ <u>502,580</u>
Cash and Cash Equivalents	\$ 159,389	\$ 159,610
Investments in Certificates of Deposit with a Maturity Greater Than Three Months	<u>342,970</u>	<u>342,970</u>
Total Deposits	\$ <u>502,359</u>	\$ <u>502,580</u>

INTERFUND RECEIVABLES AND PAYABLES

The amounts of the interfund receivables and payables are as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
General	\$ <u>1</u>	Tax	\$ <u>1</u>
	\$ <u>1</u>		\$ <u>1</u>

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ADJUST- MENTS</u>	<u>ENDING BALANCE</u>
Governmental Activities					
Capital Assets not Being Depreciated					
Land	\$ -	\$ -	\$ -	\$ 28,014	\$ 28,014
Subtotal	-	-	-	28,014	28,014
Capital Assets Being Depreciated					
Buildings and Improvements	122,679	3,622	-	(71,687)	54,614
Furniture	114,520	-	-	(113,665)	855
Equipment	-	-	-	54,519	54,519
Data Processing Equipment	-	-	-	13,788	13,788
Subtotal	237,199	3,622	-	(117,045)	123,776
Less Accumulated Depreciation for					
Buildings and Improvements	18,858	1,095	-	-	19,953
Furniture	180	77	-	-	257
Equipment	43,516	2,988	-	-	46,504
Data Processing Equipment	7,286	2,620	-	-	9,906
Subtotal	69,840	6,780	-	-	76,620
Net Capital Assets Being Depreciated	167,359	(3,158)	-	(117,045)	47,156
Total Capital Assets-Net of Depreciation	\$ 167,359	\$ (3,158)	\$ -	\$ (89,031)	\$ 75,170

The adjustments above reflect corrections made during the current year to adjust the carrying balances to the Township's actual physical asset listing and eliminate all assets under the Township's cost threshold of \$250 for furniture, and all other equipment and \$1,500 for buildings and all other improvements.

Depreciation expense was charged to programs as follows:

Governmental Activities	
General Government	\$ 6,780
Total Government Activities	\$ 6,780

KALAMO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township manages its risk exposure through a combination of risk management pools and commercial insurance. The Township has insurance provided by an independent insurance company for worker's compensation. Following is a summary of the risk management pool participation.

The Township participates in the Michigan Township Participating Plan (Par Plan) for property, general liability, and employee bond coverage. The Michigan Township Participating Plan was established in April 1985, pursuant to laws of the State of Michigan, which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the plan is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Township Participating Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Par Plan. Due to this reinsurance purchase, there is no pooling of risk between members. The plan has protected itself in the event a reinsurance becomes uncollectible by purchasing a reinsurance treaty for uncollectible reinsurance.

The Par Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles), which vary from member to member.

At June 30, 2004, there were no claims that exceeded insurance coverage. The Township had no significant reduction in insurance coverage from previous years.

KALAMO TOWNSHIP
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 513,191	\$ 513,191	\$ 513,191	\$ -
Resources (Inflows)				
Taxes and Penalties	-	-	39,225	39,225
State Grants	-	-	123,493	123,493
Charges for Services	-	-	9,021	9,021
Licenses and Permits	-	-	119	119
Interest and Rents	-	-	10,984	10,984
Other Revenue	-	-	3,820	3,820
Amounts Available for Appropriation	-	-	186,662	186,662
Charges to Appropriations (Outflows)				
Legislative	10,000	10,000	7,741	2,259
General Government				
Supervisor	8,000	8,000	7,379	621
Elections	4,000	4,000	76	3,924
Assessor	10,000	10,000	15,647	(5,647)
Clerk	20,000	20,000	12,840	7,160
Board of Review	1,100	1,100	915	185
Treasurer	14,000	14,000	13,030	970
Township Hall	4,500	4,500	4,376	124
Cemetery	16,378	16,378	15,689	689
Public Safety				
Fire Protection	22,000	22,000	22,721	(721)
Public Works				
Highways	20,000	27,435	38,456	(11,021)
Dust Control	20,000	20,000	20,946	(946)
Drains	1,600	3,812	3,812	-
Health and Welfare				
Ambulance	9,000	9,000	7,901	1,099
Other	21,000	21,000	16,292	4,708
Capital Outlay	3,622	3,622	3,622	-
Total Charges to Appropriations	185,200	194,847	191,443	3,404
Budgetary Fund Balance-June 30, 2004	\$ 327,991	\$ 318,344	\$ 508,410	\$ 190,066

KALAMO TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Revenues				
Taxes and Penalties:				
Current Property Taxes			\$ 29,850	
Administrative Fees			9,375	
Total Taxes and Penalties	\$ -	\$ -	<u>39,225</u>	\$ 39,225
State Grants:				
State Revenue Sharing			120,951	
Other			2,542	
Total State Grants	-	-	<u>123,493</u>	123,493
Charges for Services:				
Charges for Services			374	
Fire Runs and Protection			3,830	
Grave Openings			2,700	
Foundations			317	
Sale of Cemetery Lots			1,800	
Total Charges for Services	-	-	<u>9,021</u>	9,021
Licenses and Permits:				
Dog License Revenue			119	
Total Licenses and Permits	-	-	<u>119</u>	119
Interest and Rentals:				
Interest			9,788	
Rentals			1,196	
Total Interest and Rentals	-	-	<u>10,984</u>	10,984
Other Revenue:				
Metro Act			3,703	
Miscellaneous			117	
Total Other Revenue	-	-	<u>3,820</u>	3,820
Total Revenues	-	-	<u>186,662</u>	<u>186,662</u>

KALAMO TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Expenditures				
Legislative:				
Township Board:				
Per Diem and Fees			3,300	
Supplies			123	
Mileage and Expenses			200	
Membership and Training			3,536	
Bank Charges			344	
Miscellaneous			<u>238</u>	
Total Legislative	<u>10,000</u>	<u>10,000</u>	<u>7,741</u>	<u>2,259</u>
General Government:				
Supervisor:				
Salary			<u>7,379</u>	
Total Supervisor	8,000	8,000	<u>7,379</u>	621
Elections:				
Supplies			34	
Mileage and Expenses			<u>42</u>	
Total Elections	4,000	4,000	<u>76</u>	3,924
Assessor:				
Supplies			407	
Contracted Services			<u>15,240</u>	
Total Assessor	10,000	10,000	<u>15,647</u>	(5,647)
Clerk:				
Salary			10,096	
Supplies			487	
Professional Services			1,520	
Mileage and Expenses			407	
Printing and Publishing			205	
Dues and Subscriptions			<u>125</u>	
Total Clerk	20,000	20,000	<u>12,840</u>	7,160
Board of Review:				
Wages			787	
Miscellaneous			<u>128</u>	
Total Board of Review	1,100	1,100	<u>915</u>	185

KALAMO TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Expenditures (Continued)				
General Government (Continued):				
Treasurer:				
Salary			10,000	
Supplies			1,516	
Professional Services			989	
Mileage and Expenses			352	
Miscellaneous			<u>173</u>	
Total Treasurer	14,000	14,000	<u>13,030</u>	970
Township Hall:				
Wages			400	
Supplies			80	
Utilities			2,114	
Trash Removal			332	
Rental Refunds			350	
Repairs and Maintenance			<u>1,100</u>	
Total Township Hall	4,500	4,500	<u>4,376</u>	124
Cemetery:				
Salary			11,799	
Supplies			2,276	
Mileage and Expenses			308	
Utilities			979	
Repairs and Maintenance			155	
Miscellaneous			172	
Capital Outlay			<u>3,622</u>	
Total Cemetery	<u>20,000</u>	<u>20,000</u>	<u>19,311</u>	<u>689</u>
Total General Government	<u>81,600</u>	<u>81,600</u>	<u>73,574</u>	<u>8,026</u>
Public Safety:				
Fire Protection:				
Contracted Services			<u>22,721</u>	
Total Public Safety	<u>22,000</u>	<u>22,000</u>	<u>22,721</u>	<u>(721)</u>
Public Works:				
Highways:				
Repairs and Maintenance			<u>38,456</u>	
Total Highways	20,000	27,435	<u>38,456</u>	(11,021)

KALAMO TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Expenditures (Continued)				
Public Works (Continued):				
Dust Control				
Contracted Services			<u>20,946</u>	
Total Dust Control	20,000	20,000	<u>20,946</u>	(946)
Drains:				
Contracted Services			<u>3,812</u>	
Total Drains	<u>1,600</u>	<u>3,812</u>	<u>3,812</u>	-
Total Public Works	<u>41,600</u>	<u>51,247</u>	<u>63,214</u>	<u>(11,967)</u>
Health and Welfare:				
Ambulance:				
Contracted Services			<u>7,901</u>	
Total Ambulance	<u>9,000</u>	<u>9,000</u>	<u>7,901</u>	<u>1,099</u>
Total Health and Welfare	<u>9,000</u>	<u>9,000</u>	<u>7,901</u>	<u>1,099</u>
Other:				
FICA Contribution	6,000	6,000	3,551	2,449
Insurance, Bonds and Fringes	<u>15,000</u>	<u>15,000</u>	<u>12,741</u>	<u>2,259</u>
Total Other	<u>21,000</u>	<u>21,000</u>	<u>16,292</u>	<u>4,708</u>
Total Expenditures	<u>185,200</u>	<u>194,847</u>	<u>191,443</u>	<u>3,404</u>
Excess of Revenues Over (Under)				
Expenditures	(185,200)	(194,847)	(4,781)	190,066
Fund Balance-July 1, 2003	<u>513,191</u>	<u>513,191</u>	<u>513,191</u>	-
Fund Balance-June 30, 2004	<u>\$ 327,991</u>	<u>\$ 318,344</u>	<u>\$ 508,410</u>	<u>\$ 190,066</u>



WALKER, FLUKE & SHELDON, PLC
CERTIFIED PUBLIC ACCOUNTANTS

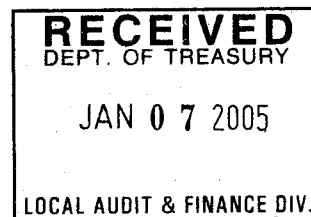
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October 21, 2004

To the Township Board
Kalamo Township
Eaton County, Michigan



We have recently completed an audit of the financial statements of Kalamo Township, Eaton County, Michigan for the year ended June 30, 2004. During the course of the audit, the following items came to our attention, which require further comment.

Budgeting

P.A. 621, 1978 requires governmental units to prepare annual budgets containing an itemized statement for its proposed expenditures and estimated revenues, covering all its departments and activities. The budget for revenue of the Township should be a detailed estimate of all anticipated income of the Township from major sources per the Uniform Chart of Accounts for Local Units of Government. The major revenue source classifications are taxes and penalties, licenses and permits, federal aid, state aid, intergovernmental revenue, charges for services, fines and forfeits, interest and rentals, and miscellaneous.

In addition, P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the Township had not adopted a revenue budget and it over expended in four expenditure areas due to unforeseen year-end adjusting entries. The Township has adopted a revenue budget for the year ended June 30, 2005. The Township currently monitors the budget and does amend the budget from time to time and will continue to do so. We recommend that consideration be taken at year-end for typical audit adjustments and the budget be amended accordingly.

Interest Income Record Keeping

During the course of the audit, it was noted that interest income on certificates of deposit were not being recorded when the interest was earned.

According to generally accepted accounting principles, the general and special revenue funds of governmental units use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means, collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Since the interest earned on certificates is periodically credited to the account, the interest being credited meets the measurable and available test for revenue recognition and must be recorded by the Township.

It is our recommendation that the Township record interest income from certificates of deposit when it is credited to the account. The treasurer should request quarterly print outs for each certificate of deposit from the corresponding bank. The amount of interest credited to the account since the prior inquiry should be receipted and given to the clerk for posting in the general ledger. This documentation should be kept to support the entries and filed in an organized manner that is easily accessible. In addition, the clerk should reconcile the bank balance to the adjusted general ledger balance. Any discrepancies should be investigated and corrected in a timely manner.

Disbursements

During the course of the audit, internal control weaknesses in the expenditure area were noted as follows:

1. Several disbursements were coded to incorrect general ledger accounts. This causes inaccurate interim financial statements and a large amount of bookkeeping time at year-end to correct. We recommend that if an item is in question as to where to classify it, consult with Walker, Fluke & Sheldon throughout the year to ensure that items are recorded correctly at the time of the transaction.
2. Payment was made for property taxes on the Hillside Cemetery property. Michigan Compiled Law 211.7M exempts cemetery property from advalorem taxes. It is recommended that the Township contact the assessor to get this corrected.

We would like to take this opportunity to thank the Kalamo Township Clerk and Treasurer for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Fluke & Sheldon, P.C.